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UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
WESTERN DIVISION

FILED CLERK, U.S. DISTRICT COURT
OCT - 5 2001
CENTRAL DISTRICT OF CALIFORNIA BY DEPUTY

SOUTHERN CALIFORNIA EDISON
COMPANY,

Plaintiff,

vs.

LORETTA M. LYNCH, HENRY M.
DEQUE, RICHARD A. BILAS, CARL
W. WOOD, and GEOFFREY F.
BROWN, in their official capacities as
Commissioners of the California Public
Utilities Commission,

Defendants.

CASE NO. 00-12056-RSWL(Mcx)

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ENTERED CLERK, U.S. DISTRICT COURT
OCT - 5 2001
CENTRAL DISTRICT OF CALIFORNIA BY DEPUTY

STIPULATED JUDGMENT

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☒ JS-5/JS-6
☐ JS-2/JS-3
☐ CLSD

(290)

I. GENERAL PROVISIONS

A. Basis for resolution

1. Plaintiff, Southern California Edison Company ("SCE"), and Defendants, the Commissioners of the California Public Utilities Commission ("Commission", referred to collectively with the Defendants as "CPUC"), agree to the terms of this stipulated judgment to resolve this action. This stipulated judgment reflects a compromise of disputed issues in pending litigation, and is not to be taken as an admission of liability or material facts beyond the terms of the judgment. The purpose of this stipulated judgment is to stabilize the costs and enhance the reliability of producing and distributing electricity for the benefit of SCE's ratepayers and the State of California within the context of a Settlement Agreement ("Agreement"). The terms of the Agreement are set forth in Exhibit A hereto.

2. SCE and the CPUC share a common interest in implementing the provisions of this judgment, to enable SCE to recover its past costs as defined in the Agreement, to restore SCE to creditworthiness, to protect consumers from the potential impact of further volatility in electricity prices and unreliable service, and to avoid the risks and costs of further litigation. Implementation of the Agreement is intended to enable SCE to fulfill its historic obligation to provide reliable electric service at just and reasonable rates to its retail customers, and is therefore in the public interest.

B. Jurisdiction of the Court

1. SCE's Complaint alleges that defendants' past decisions are unlawful because they prevent SCE from recovering fully its costs, in particular, its costs of procuring electricity and its costs of interstate transmission. SCE's Complaint states causes of action based upon (a) preemption, including preemption under the filed rate doctrine; (b) facial takings, (c) due process, (d) as-applied takings, and (e) commerce clause.

2. The Court has previously determined that it has jurisdiction over this action pursuant to 28 U.S.C. §§ 1331, 1337 and 1343. Venue is proper in the Central District of California pursuant to 28 U.S.C. § 1391. Defendants agree not to take any appeal from the Court's determination that it has jurisdiction and to waive any defense they may have to the Court's jurisdiction based upon the Eleventh Amendment for purposes of this case only.

3. As a Party to the Agreement, the Commission (as distinct from the individual Defendants) joins in and agrees to be bound by all of the terms of this stipulated judgment. The CPUC agrees to waive any defense it may have to the Court's jurisdiction based upon the Eleventh Amendment, or other defense, for purposes of this case only.

C. Issues Previously Determined By The Court

1. The Court has denied defendants' motion to dismiss.

2. SCE alleges that federal law preempts California from preventing SCE from fully recovering in retail rates its wholesale procurement costs, which are subject to the exclusive jurisdiction of the Federal Energy Regulatory Commission ("FERC").

3. SCE has paid wholesale procurement costs established pursuant to tariffs filed by the Independent System Operator and the Power Exchange with FERC, and has been charged additional amounts pursuant to such tariffs that it has not yet paid. SCE has made the following assertions: The filed rate doctrine "holds that interstate power rates filed with FERC or fixed by FERC must be given binding effect by state utility commissions determining intrastate rates." Nantahala Power & Light Co. v. Thornburg, 476 U.S. 953, 962, 106 S. Ct. 2349, 90 L. Ed. 2d 943 (1986). Accordingly, "a State may not conclude in setting retail rates that the FERC-approved wholesale rates are unreasonable. A State must rather give effect to Congress' desire to give FERC plenary authority over interstate wholesale rates, and to ensure that the States do not interfere with this authority." *Id.* at 966. "When FERC sets a rate between a seller of power and a wholesaler-as-buyer, a State may not exercise its undoubted jurisdiction over retail sales to prevent the wholesaler-as-seller from recovering the costs of paying the FERC-approved rate." *Id.* at 970. As the Supreme Court stated in a subsequent case, States "may not bar regulated utilities from passing through to retail consumers FERC-mandated wholesale rates." Mississippi Power & Light Co. v. Mississippi ex rel. Moore, 487 U.S. 354, 372, 108 S. Ct. 2428, 101 L. Ed. 2d 322 (1988).

4. The Court has rejected defendants' claim that SCE is equitably estopped from invoking the filed rate doctrine. The Court has ruled that SCE may challenge defendants' implementation of state law, even though SCE lobbied for the passage of Assembly Bill 1890.

D. Issues Not Resolved

1. A number of issues are unresolved in this case and remain in dispute. This stipulated judgment reflects a compromise of those issues.

2. The Court has stated that the filed rate doctrine is subject to an exception under Pike County Light & Power Co. v. Pennsylvania Pub. Util. Comm'n, 465 A.2d 735 (Pa. Commw. Ct. 1983), if the state regulatory commission finds that the utility acted imprudently in failing to purchase power at wholesale from available, less costly sources. SCE contends that the Pike County exception does not apply to SCE, because the CPUC deemed all of SCE's purchases from the Power Exchange and Independent System Operator per se prudent. The CPUC has disputed SCE's contention.

3. The CPUC argues that SCE has recovered all of its wholesale procurement costs, because under AB 1890 it was required to recover those costs ahead of any so-called stranded costs. The CPUC argues, therefore, that there is no preemption claim in this case, and that therefore the Johnson Act does bar this case. On March 27, 2001, the CPUC issued Decision No. 01-03-082, which modified certain CPUC accounting rules. The CPUC contends that, as a result of this change, the CPUC has provided for the recovery of wholesale procurement costs. SCE disputes the CPUC's contention, and claims that the accounting change does not provide an adequate and independent state ground for avoidance of the application of the federal filed rate doctrine.

4. SCE contends that the CPUC's actions constitute a taking of property without just compensation and a violation of due process, insofar as the net effect of the State's regulatory program has been and continues to be to impair SCE's financial integrity and to prevent SCE from attracting capital and paying a return to investors. The CPUC has disputed SCE's contention, and claims that SCE has been provided with a reasonable opportunity to recover its stranded costs, and its inability to do so was caused by economic circumstances not within the control of the CPUC.

5. SCE contends that the CPUC's actions violate the Commerce Clause. The CPUC has disputed SCE's contention.

6. SCE and the CPUC recognize that SCE has presented substantial federal claims and that the ultimate judicial resolution of these issues is uncertain. SCE and the CPUC agree that the resolution of the case in accordance with this stipulated judgment is desirable to eliminate this uncertainty and to provide an outcome that is in the public interest.

E. Future Effect

1. The Agreement that is incorporated herein provides for SCE to recover certain costs in retail rates over time. An essential element of this stipulated judgment is to provide certainty that SCE will be able to recover such costs in accordance with the Agreement. SCE and the CPUC contemplate that third parties will rely on such certainty in extending credit to SCE. Accordingly, enforcement of this stipulated judgment and the Agreement are essential in order to restore SCE's creditworthiness, which is in the interests both of SCE and of the CPUC.

2. The parties and their respective successors and assigns agree to be bound by the terms of this stipulated judgment and agree not to contest its validity in any subsequent proceeding. Defendants recognize that market prices may fluctuate, that state or federal law may be modified, and that other circumstances may change, and nevertheless intend that this stipulated judgment be binding and enforceable in the future in accordance with its terms.

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3. The Court enters this stipulated judgment and Agreement as its judgment, and retains jurisdiction to enforce the judgment in the future, as may be necessary.

IT IS SO ORDERED

RONALD S.W. LEW

The Honorable Ronald S. W. Lew
United States District Judge

Presented by:

Gary Cohen 10/5/01
Gary M. Cohen *gms*
Attorney for Defendants

John W. Spiegel 10/5/01
John W. Spiegel
Attorney for Plaintiff



Exhibit A

SETTLEMENT AGREEMENT

THIS SETTLEMENT AGREEMENT ("*Agreement*") is entered into by and among the undersigned Parties hereto on this 2nd day of October 2001, with reference
5 to the following:

RECITALS OF THE PARTIES

A. The Parties hereto are currently engaged in litigation in the case styled
10 as Southern California Edison Company, Plaintiff, vs. Loretta M. Lynch et. al., presently pending in the United States District Court for the Central District of California, Case No. 00-12056-RSWL(Mcx) (the "*Litigation*").

B. In the Litigation, SCE has contended, inter alia, that Defendants have
15 not permitted SCE to recover in retail rates the full amount of SCE's costs, including its wholesale electric procurement costs, as required by federal law. In the absence of this Agreement, SCE would have sought to recover these costs over a shorter time period than provided for in this Agreement. Such a recovery could have resulted in substantial and immediate retail rate increases materially in excess of electric retail rates
20 currently in effect. Defendants have denied that they have acted unlawfully, and have denied that the Court in which the Litigation is pending has jurisdiction over the dispute or to grant the relief sought by SCE. The Court has overruled Defendants' Mo-

tion to Dismiss on jurisdictional grounds and then stayed the Litigation at the parties' request.

5 C. SCE and the CPUC agree that certain wholesale electric procurement costs reflect wholesale prices that may be unlawful. SCE and the CPUC, along with agencies of the State of California, are seeking recovery and refunds of such unlawful costs through proceedings before the Federal Energy Regulatory Commission ("FERC") and may seek recovery and refunds through the courts (the "Refunds").

10 D. As a result of SCE's past inability to recover its wholesale electricity procurement costs, SCE's ability to procure all of the electricity needed to serve its customers has been threatened, the State of California and its taxpayers have assumed SCE's traditional function of procuring electric power for SCE's retail customers, and SCE is in the midst of a severe liquidity crisis, having incurred procurement related
15 liabilities and indebtedness totaling approximately \$6.355 billion. SCE cannot access credit in financial markets. Continued uncertainty and instability threaten the reliability of SCE's electric service and create a likelihood that the temporary role of state government in electricity procurement will be extended indefinitely. Before the Litigation and the Refunds could be resolved through trial and appeal, SCE would likely
20 be forced into bankruptcy.

E. As a result of decisions of the CPUC adding a surcharge to retail rates, reductions in natural gas prices, the imposition of wholesale price mitigation measures by FERC, and the current stability of California's wholesale electricity markets resulting from the procurement activity of the State of California and conservation by California consumers, SCE has been recently collecting, and may continue to collect, retail revenues in excess of current costs. The continuation of current retail rates that produce revenues in excess of SCE's current costs creates an opportunity for resolution of the Litigation and recovery of SCE's financial capability and ability to procure all of the electricity needed by its customers without further retail rate increases. The Parties wish to use this opportunity to settle the Litigation for the benefit of ratepayers, the State of California and SCE and to enable SCE to procure all of the electricity needed by its customers.

F. The purposes of this Agreement are to (i) avoid instability and uncertainty for ratepayers, the State of California and SCE, (ii) protect consumers from the potential impact of further volatility in electricity prices, (iii) avoid further costly and wasteful litigation, and (iv) restore the investment grade creditworthiness of SCE as rapidly as reasonably practical so that it will be able to provide reliable electric service as a state regulated entity as it has in the past.

G. In the exercise of its police and regulatory power, the CPUC is entering into this Agreement and shall adopt such decisions and orders as it deems necessary to implement and carry out the provisions of this Agreement.

5 H. The CPUC and SCE acknowledge that a reasonable and predictable regulatory framework for procurement activities of, and recovery of procurement costs by, SCE is important to SCE's procuring all of the electricity needed to serve its customers and the payment of its Procurement Related Liabilities.

10 I. This Agreement is a compromise believed by the Parties to be in the best interests of ratepayers, the State of California and SCE. Nothing in this Agreement shall be construed or deemed to be an admission of any liability or any material facts by any of the Parties hereto, it being agreed that any and all obligations of the Parties related to the Litigation shall be solely as set forth in this Agreement and the
15 Stipulated Judgment. This Agreement is intended to be non-precedential in all particulars, and the enforceability of this Agreement and the Stipulated Judgment herein will be of such limited duration as is necessary to accomplish their purposes.

NOW, THEREFORE, in consideration of the foregoing, the agreements set
20 forth herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties, intending to be legally bound, hereby

agree as follows:

[Execution Copy

**ARTICLE 1
DEFINITIONS**

Section 1.1 Certain Defined Terms. When used in this Agreement, the following terms shall have the following meanings:

(a) "*AB 1890*" means California Assembly Bill 1890 enacted into law in 1996, Chapter 854, as thereafter amended.

(b) "*Agreement*" shall have the meaning given to such term in the introductory paragraph hereof.

10 (c) "*CDWR*" means the California Department of Water Resources.

(d) "*CDWR Charges*" means retail charges for electricity that CDWR sells and has sold to retail customers in SCE's service territory, including financing costs in connection therewith.

(e) "*CPUC*" means the California Public Utilities Commission and
15 the Commissioners thereof in their official capacities and their respective successors.

(f) "*FERC*" has the meaning set forth in the Recitals to this Agreement.

(g) "*Litigation*" shall have the meaning given to such term in the Recitals to this Agreement.

(h) "*Net Short Procurement Costs*" means all costs, including imbalance energy costs, incurred by SCE for energy, capacity and ancillary services and all
5 other costs reasonably related thereto that are determined to be reasonable, or otherwise meet standards of reasonableness as established, by the CPUC, *excluding* SCE's costs of energy, capacity and ancillary services provided by (i) generating facilities that are owned by SCE as of the date of this Agreement and (ii) bilateral and QF contracts to which SCE is a party as of the date of this Agreement. For the sake of clarity,
10 it, the Parties agree that CDWR Charges are not part of SCE's Net Short Procurement Costs. Nothing in this Agreement is intended to prevent SCE from incurring Net Short Procurement Costs.

(i) "*Parties*" means the CPUC and SCE.

(j) "*Person*" means an individual, partnership, joint venture, corporation, limited liability company, trust, association or unincorporated organization,
15 any governmental authority, or any other entity.

(k) "Procurement Related Liabilities" shall mean the procurement related liabilities and indebtedness listed on *Schedule 1.1* attached hereto, totaling approximately \$6.354 billion.

(l) "Procurement Related Obligations" shall mean the costs recorded in the Procurement Related Obligations Account together with interest thereon as calculated in *Section 2.1(c)*.

(m) "Procurement Related Obligations Account" or "PROACT" means the Account for Recovery of Procurement Related Obligations established pursuant to *Section 2.1(a)* of this Agreement.

10 (n) "PX Billing Claim" means any claim, liability, demand, cause of action, chose in action, levy, attachment, lien, encumbrance, or right of setoff, reimbursement, relief, injunction, contribution, indemnity or similar right, whether in law or in equity or otherwise, that any Person has against SCE for SCE's failure, or alleged failure, to pay timely any amounts due or claimed to be due to the California
15 Power Exchange Corporation, a not-for-profit public benefit corporation, or the California Independent System Operator Corporation, a California not-for-profit public benefit corporation, to the extent such amounts due or claimed to be due are reflected in the opening balance of the PROACT.

(o) "QF" means a "qualifying facility" as defined in the Public Utility Regulatory Policy Act of 1978.

(p) "*Rate Repayment Period*" means the period commencing September 1, 2001 and ending on the earlier of the date that SCE recovers all Procurement Related Obligations recorded in the PROACT or December 31, 2003.

(q) "*Recovery Period*" means the period commencing September 1, 2001 and ending on the earlier of the date that SCE recovers all Procurement Related Obligations recorded in the PROACT or December 31, 2005. The Recovery Period includes the Rate Repayment Period.

(r) "*Recoverable Costs*" means the amounts SCE is authorized by the CPUC to recover in retail electric rates, but not including Procurement Related Obligations.

(s) "*Refunds*" has the meaning set forth in the Recitals to this Agreement.

(t) "SCE" means Southern California Edison Company, a California corporation, and its successors.

(u) "*Securitization*" or "*Securitize*" means a financing or to engage in a financing, as the case may be, like the Rate Reduction Bonds issued pursuant to AB 1890, which may be authorized by the California legislature.

(v) "*Seller Claims*" means any claim, cause of action, right of setoff, right of refund or similar right under state or federal law in favor of SCE that is related to or arises from the charging, either directly or indirectly, of prices for electric energy, capacity or ancillary services or for natural gas that are reflected in the opening balance of the PROACT, or conduct related thereto.

(w) "*Settlement Rates*" means gross electric retail rates (including surcharges) in effect on the date of this Agreement as the same shall be hereafter increased or decreased to reflect (i) the combined effect on Surplus, if any, of both SCE's Net Short Procurement Costs and CDWR Charges, as the same may exist from time to time during the Rate Repayment Period, when compared to the impact on Surplus of Stabilized CDWR Charges, (ii) Recoverable Costs directed to be incurred by the CPUC that are in excess of the Recoverable Costs referred to in *Section 2.1(d)*, and (iii) uninsured costs, if any, of recognized force majeure events, such as earthquake, calamity, war and the like.

(x) "*Shareholder Distribution*" shall mean a distribution by SCE to its shareholders, as defined in Section 166 of the California Corporations Code, with

respect to their holdings of Common Stock in SCE, that is subject to the provisions of Section 500 et. seq. of the California Corporations Code. For example payments from SCE to Edison International or its affiliates in consideration of goods, services or contractual obligations are not "Shareholder Distributions."

5 (y) "*Stabilized CDWR Charges*" means CDWR Charges for electrical power sold to retail customers in the service territory of SCE that are first implemented by the CPUC after the date hereof.

 (z) "*Stipulated Judgment*" means the Stipulated Judgment referred to in Section 4.1.

10 (aa) "*Surplus*" means the difference, positive or negative, if any, of SCE's revenues from retail electric rates (including surcharges) during the Recovery Period over SCE's Recoverable Costs for the same period.

 (bb) "*TCBA*" means that balancing account of SCE commonly referred to as the "transition cost balancing account" established by the CPUC.

15 (cc) "*Utility Retained Generation*" means generating plants owned by SCE as of the date of this Agreement, including but not limited to all hydroelectric generation facilities, and SCE's ownership shares of the Mohave Generating Station,

the Four Corners Powerplant, the Palo Verde Nuclear Generating Station, and the San Onofre Nuclear Generating Station.

Section 1.2 Certain Interpretive Matters. In this Agreement, unless the context otherwise requires, the singular shall include the plural and vice versa. The terms "includes" or "including" shall mean "including without limitation"; the terms "hereunder," "hereof," "hereto" and words of similar import are references to this Agreement as a whole. References to a Section, Article, Exhibit or Schedule shall mean a Section, Article, Exhibit or Schedule of this Agreement, and reference to a given agreement or instrument shall be a reference to that agreement or instrument as modified, amended, supplemented and restated through the date as of which such reference is made.

ARTICLE 2 RATE STABILIZATION AND COST RECOVERY

Section 2.1 Procurement Related Obligations Account (PROACT).

15 (a) The CPUC will establish the Procurement Related Obligations Account (PROACT) by order. The opening balance thereof will be the excess of SCE's Procurement Related Liabilities as of August 31, 2001 over SCE's cash and cash equivalents on hand as of such date, less the sum of \$300 million. Such opening balance shall be subject to equitable adjustment in the event that pending proceedings

related to SCE's Utility Retained Generation result in amortization periods of less than ten (10) years (from January 1, 2001) for the regulatory assets that represent SCE's ownership in nuclear power plants. The CPUC shall verify the recorded balance as of August 31, 2001 of the Procurement Related Liabilities listed in *Schedule 1.1* and the amount of cash and cash equivalents that SCE had on hand on such date within thirty (30) days from the date of this Agreement. The Parties estimate that the balance of the PROACT as of the date hereof is approximately \$3.3 billion.

(b) SCE will apply all accrued Surplus to the PROACT on a monthly basis or such other periodic basis as may be established by the CPUC, except as provided in *Section 2.1(d)*. SCE may also apply the proceeds of any Securitization related to the receipt of Surplus to the PROACT as provided by *Section 2.2(c)*.

(c) Unrecovered Procurement Related Obligations in the PROACT shall accrue interest equal to the interest from September 1, 2001 on SCE's outstanding Procurement Related Liabilities and any refinancings thereof net of interest earned on SCE's cash position.

(d) During the Recovery Period from and after September 1, 2001, all Surplus shall be applied to the PROACT, except that during each calendar year of the Rate Repayment Period commencing calendar year 2002, the CPUC, without adjusting Settlement Rates under *Section 1.1(w)*, shall have discretion to direct that up to

\$150 million of Surplus be applied to recover Recoverable Costs for any utility purpose, including investments in infrastructure or increases in energy efficiency program funding. It is the intent of the foregoing to provide flexibility needed by the CPUC to direct the utilization of utility revenues in the interest of ratepayers and, at the same time, to limit the amounts that would otherwise be Surplus that are made available for other utility purposes unless Settlement Rates are adjusted as contemplated by *Section 1.1(w)*. It is understood that the utilization of Surplus provided by this paragraph shall only affect the timing of SCE's recovery of Procurement Related Obligations, the Parties agreeing that SCE shall recover the full amount of its Procurement Related Obligations during the Recovery Period, as provided in *Section 2.2*.

Section 2.2 Recovery of Procurement Related Obligations. The Parties hereby agree that during the Recovery Period SCE shall recover in retail electric rates its Procurement Related Obligations recorded in the PROACT. The Parties acknowledge that they each currently project that the maintenance of Settlement Rates will likely result in sufficient Surplus for SCE to recover substantially all of its unrecovered Procurement Related Obligations prior to the end of 2003. SCE's recovery of its Procurement Related Obligations shall occur as follows:

- (a) The CPUC hereby agrees to maintain retail electric rates for retail customers in SCE's service territory at no less than Settlement Rates during the Rate Repayment Period.

(b) In the event that any Procurement Related Obligations remain unrecovered in the PROACT at the conclusion of the Rate Repayment Period, then such amount will be amortized in retail rates ratably during all or a portion of the remainder of the Recovery Period.

5 (c) If the CPUC concludes that it is desirable to Securitize any portion of unrecovered Procurement Related Obligations at any time during the Recovery Period (together with the financing and transaction costs of Securitization) in order to reduce the retail rate impact of their recovery, then the Parties will work cooperatively together to achieve such Securitization, including obtaining appropriate legislation
10 therefore. In the event that such Securitization results in amortization of SCE's remaining Procurement Related Obligations, if any, beyond the Recovery Period, then SCE's rates after the Recovery Period will reflect continuation of the pertinent amortization schedule. Any such Securitization shall modify the recovery that is otherwise provided for in this *Section 2.2* of the Procurement Related Obligations that are in-
15 cluded in such Securitization only from and after the date that SCE actually receives the proceeds of such Securitization, and such proceeds shall be credited to the PROACT only when they are actually received.

Section 2.3 Capital Structure. During the Recovery Period, no penalty shall be imposed upon SCE for its noncompliance, if any, with CPUC mandated capital

structure requirements, and changes in authorized capital structure, if any, shall be implemented in a manner so as not to affect the extent of SCE's receipt of Surplus.

Section 2.4 Hedging. In order to facilitate SCE's restoration to investment grade creditworthiness by making the rate at which Procurement Related Obligations are recovered more predictable, SCE intends to apply to the CPUC for its approval of SCE incurring up to \$250 million in Recoverable Costs during the Rate Repayment Period to acquire financial instruments and engage in other transactions intended to hedge fuel cost risks associated with SCE's Utility Retained Generation and QF and interutility contracts. The CPUC has indicated that it will reasonably promptly schedule proceedings and consider such request on an expedited basis. Pending such determination by the CPUC, SCE shall record such costs in a tracking account.

Section 2.5 Dividend Suspension. In order to expedite payment of its creditors, SCE will not declare or pay a Shareholder Distribution on its Common Stock prior to (a) the end of the Rate Repayment Period, or (b) if SCE does not recover all of its Procurement Related Obligations as of or prior to the end of the Rate Repayment Period, prior to the earlier of January 1, 2005 or the end of the Recovery Period. It is the intent of the foregoing that cash generated from Surplus be used to reduce Procurement Related Liabilities. SCE and the CPUC recognize that resumption of Common Stock dividend payments will improve the ability of SCE to attract capital on reasonable terms for investment in safe and reliable utility service. Accordingly,

in the event the dividend restriction in this Section continues after the end of the Rate Repayment Period, SCE may apply to the CPUC for consent to a resumption of its Common Stock dividend after the Rate Repayment Period, and the CPUC's consent will not be unreasonably withheld.

5 Section 2.6 Capital Additions. In order to assure the ability of SCE to continue to provide adequate service prior to the effectiveness of new retail rates established by SCE's next General Rate Case, SCE shall be entitled to make capital expenditures above the level contained in current rates. To the extent such expenditures do not exceed \$900 million in a calendar year, then the revenue requirement until the ef-
10 fectiveness of retail rates established by SCE's next General Rate Case that is associated with capital expenditures above the level contained in current rates shall be Recoverable Costs.

Section 2.7 Representation and Warranty Regarding Financial Condition of Edison International and SCE Affiliates. SCE represents and warrants that, to the best
15 of its knowledge and belief, the consolidated financial statements of Edison International and Edison Mission Energy for the quarterly period ended June 30, 2001 do not contain misrepresentations of material facts and do not omit material facts necessary to make the statements made in such financial statements, under the circumstances in which they were made, not misleading. SCE further represents and warrants that Edi-
20 son International and its affiliates Edison Capital and Mission Energy Holding Com-

pany do not have investment grade ratings for their senior unsecured debt, and that its affiliate Edison Mission Energy has an investment grade rating below BBB for its senior unsecured debt.

Section 2.8 Disposition of TCBA. Balances in SCE's TCBA as of August
5 31, 2001 shall have no further impact on SCE's retail electric rates, Surplus or Recoverable Costs, except to the extent the CPUC authorizes the recovery after such date of costs previously recorded in the TCBA (e.g., accelerated amortization of SCE's investment in nuclear plants). Recoverable Costs incurred after August 31, 2001, which would otherwise have been recorded in the TCBA, shall be recovered in rates in accordance with further orders of the CPUC, whether or not the CPUC chooses to continue to have such costs recorded in the TCBA.
10

Section 2.9 Intended Effects. The CPUC shall adopt such decisions or orders as it deems necessary to implement and carry out the provisions of this Agreement, it being understood that this Agreement and the Stipulated Judgment contemplated
15 hereby shall be binding and irrevocable upon the Parties, notwithstanding such future decisions and orders of the CPUC. It is the intent of the Parties that SCE actually recover Procurement Related Obligations recorded in the PROACT, without offset, as rapidly as possible during the Rate Repayment Period consistent with the terms hereof, and in any event during the Recovery Period.

ARTICLE 3
COMPROMISE OF PROCUREMENT RELATED OBLIGATIONS AND RE-
LATED ADJUSTMENTS

Section 3.1. Pursuit of Seller Claims and Defense of PX Billing Claims. Sub-
5 ject to its not being required to waive any applicable privileges, SCE will cooperate in
good faith with the CPUC and the California Attorney General in order to coordinate
the pursuit and resolution of SCE's Seller Claims and its defenses against PX Billing
Claims along with claims involving the same adverse parties that the State of Califor-
nia or its agencies may have or assert directly or in their representative capacity or in
10 coordination with third parties and that arise from power purchases. In this regard,
SCE will:

(a) Regularly consult with the General Counsel of the CPUC and the
California Attorney General regarding the coordination of litigation strategies and
consider in good faith their views with respect to litigation and potential litigation in
15 respect of Seller Claims and PX Billing Claims;

(b) Execute reasonable and customary joint defense, common inter-
est or similar agreements to facilitate the coordination of claims and defenses without
waiver of privileges; and

(c) Seek and consider in good faith the General Counsel of the
20 CPUC's and the Attorney General's input, advice and proposed modifications with

respect to any material brief, memorandum, pleading and argument prior to the filing or making thereof.

Section 3.2 Resolution of Claims; Compromises.

(a) Subject to the further provisions of this *Section 3.2*, nothing
5 herein or otherwise shall prevent or limit SCE's right to litigate any Seller Claim, PX
Billing Claim or Procurement Related Liability or to appeal any order, judgment or
other disposition thereof.

(b) Subject to *Section 3.2(c)* below, nothing herein or otherwise shall
prevent or limit SCE's right to pay, restructure, settle, compromise, waive, resolve,
10 dismiss or otherwise dispose of any Seller Claim, PX Billing Claim or Procurement
Related Liability in any manner and whenever SCE determines, in the exercise of its
business judgment. SCE shall promptly notify the CPUC of any such payment, set-
tlement, compromise, waiver, resolution, dismissal or other disposition in a manner
that preserves the confidentiality thereof insofar as is reasonably necessary to further
15 SCE's flexibility to pay, settle, compromise, waive, resolve, dismiss or otherwise dis-
pose of any other SCE Seller Claim, PX Billing Claim or Procurement Related Liabil-
ity.

(c) Notwithstanding *Section 3.2(b)*, in the event that SCE wishes to compromise, waive or settle any Seller Claim or PX Billing Claim on or after March 1, 2002 (subject to extension by mutual agreement), it shall first obtain the CPUC's permission to do so. In the event the CPUC grants such permission, then SCE may effect such compromise, waiver or settlement. In the event the CPUC does not grant such permission, then SCE shall continue to pursue the claim or defense in question, and any compromise, waiver or settlement thereof shall continue to be subject to CPUC review.

Section 3.3 Credits To PROACT.

(a) One hundred percent (100%) of the liquidated value of any and all Refunds actually realized by SCE during the Recovery Period in respect of Procurement Related Liabilities, including PX Billing claims and SCE's Seller Claims, shall be applied to the PROACT. Ninety percent (90%) of the liquidated value of any and all net Refunds actually realized by SCE after the Recovery Period in respect of Procurement Related Liabilities, including PX Billing Claims and Seller Claims, shall be refunded to ratepayers as directed by the CPUC.

(b) All such Refunds shall be calculated net of (i) any and all refunds, recoveries or payments that SCE is required to make or provide in connection with its sales of power through, or its participation in, the California Power Exchange

Corporation, a not-for-profit public benefit corporation, and (ii) associated costs of recovery, including any related litigation, professional and other similar costs. Any portion of Refunds not applied to the PROACT or refunded to ratepayers, as the case may be, pursuant to the foregoing provisions may be retained by SCE without offset.

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ARTICLE 4 LITIGATION

Section 4.1 Stipulated Judgment. As soon as reasonably possible after the execution of this Agreement, and in no event later than four (4) business days following such execution, the Parties shall submit to the Court a proposed Stipulated Judgment in the Litigation (substantially in the form attached as *Exhibit A* hereto) that shall incorporate this Agreement by reference and order the terms of this Agreement to be entered as the Judgment of the Court. The Parties shall undertake their best efforts to seek entry by the Court of the Stipulated Judgment within thirty (30) days after the date hereof. If such Stipulated Judgment is not entered by the Court within such period, then either Party may terminate this Agreement upon written notice to the other given any time prior to entry of a Stipulated Judgment.

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Section 4.2 Enforcement of Stipulated Judgment. The Parties agree that the Court shall retain jurisdiction over the Litigation for the purpose of enforcing the Stipulated Judgment and ensuring that the Parties carry out the terms of this Agreement.

Section 4.3 Validity and Binding Effect. The Parties and their respective successors and assigns agree not to contest the validity and enforceability of this Agreement or the Stipulated Judgment as agreed to by the Parties and entered by the Court. This Agreement and the Stipulated Judgment are intended to be enforceable
5 under federal law, notwithstanding any contrary state law.

Section 4.4 Releases of Specified Claims. Promptly upon entry of the Stipulated Judgment, SCE shall deliver to the CPUC executed releases substantially in the form of *Exhibit B* hereto specifically releasing any and all claims and causes of action that SCE has or may have against the State of California and the CPUC that arise
10 from:

(a) The facts alleged by SCE in the Litigation, including without limitation claims and causes of action based upon the filed rate doctrine, takings, due process and commerce clause violations, except for claims and causes of action based upon this Agreement or as provided in the Stipulated Judgment;

15 (b) The CPUC's implementation prior to the date of this Agreement of Assembly Bill 1 of the 2001-02 First Extraordinary Session (Ch. 4, Stats. 2001-02 1st Ex. Sess.) and Assembly Bill 6 of the 2001-02 First Extraordinary Session (Ch. 2, Stats. 2001-02 1st Ex. Sess.), including CPUC Decision Nos. 01-03-081 and 01-04-005; and

(c) CPUC Decision No. 01-03-082 (the TURN Accounting Decision).

Section 4.5 Termination. This Agreement and the Stipulated Judgment shall terminate at the end of the Recovery Period but in no event later than December 31, 2005, *provided that* all rights of the Parties under this Agreement and the Stipulated Judgment that vest on or prior to such termination, including any rights arising from default under this Agreement or the terms of the Stipulated Judgment, shall survive any such termination for the purpose of enforcing such vested rights.

ARTICLE 5 GENERAL PROVISIONS

Section 5.1 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Section 5.2 Captions and Paragraph Headings. Captions and paragraph headings used herein are for convenience only and are not a part of this Agreement and shall not be used in construing it.

Section 5.3 Entire Agreement. This Agreement contains the entire understanding of the Parties concerning the subject matter of this Agreement and, except as expressly provided for herein, supersedes all prior understandings and agreements,

[Execution Copy]

whether oral or written, among them with respect to the subject matter hereof and thereof. There are no representations, warranties, agreements, arrangements or understandings, oral or written, between the Parties hereto relating to the subject matter of this Agreement and such other documents and instruments which are not fully expressed herein or therein. This Agreement may be amended or modified only by an agreement in writing signed by each of the Parties hereto which is filed with the Court in which the Stipulated Judgment is filed.

Section 5.4 Time Of Essence. Time is hereby expressly made of the essence with respect to each and every term and provision of this Agreement. The Parties acknowledge that each will be relying upon the timely performance by the other of its obligations hereunder as a material inducement to each Party's execution of this Agreement.

Section 5.5 No Third Party Beneficiaries. Except as may be specifically set forth in this Agreement, nothing in this Agreement, whether express or implied, is intended to confer any rights or remedies under or by reason of this Agreement on any Persons other than the Parties and their respective permitted successors and assigns, nor is anything in this Agreement intended to relieve or discharge the obligation or liability of any third Persons to any Party, nor give any third Persons any right of subrogation or action against any Party.

Section 5.6 Authority; Enforceability. Each Party represents and warrants to the other that this Agreement and the Stipulated Judgment have been duly authorized by all action required of such Party to be bound thereby, and that this Agreement and the Stipulated Judgment are valid, binding and enforceable obligations of such Party.

5 Section 5.7 Waiver of Compliance. To the extent permitted by applicable law, any failure of any of the Parties to comply with any obligation, covenant, agreement or condition set forth herein may be waived by the Party entitled to the benefit thereof only by a written instrument signed by such Party, but any such waiver shall not operate as a waiver of, or estoppel with respect to, any prior or subsequent failure
10 to comply therewith. The failure of a Party to this Agreement to assert any of its rights under this Agreement or otherwise shall not constitute a waiver of such rights.

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the
date first above written.

SOUTHERN CALIFORNIA EDISON COMPANY

By: 

Title: Chairman, President & CEO

CALIFORNIA PUBLIC UTILITIES COMMISSION

By: _____

Title: _____

COMMISSIONERS IN THEIR OFFICIAL CAPACITY

Loretta M. Lynch

Richard A. Bilas

Henry M. Duque

Carl W. Wood

Geoffrey F. Brown

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the
date first above written.

SOUTHERN CALIFORNIA EDISON COMPANY

5

By: _____

Title: _____

CALIFORNIA PUBLIC UTILITIES COMMISSION

By: Wesley M. Franklin

Title: Executive Director

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COMMISSIONERS IN THEIR OFFICIAL CAPACITY

Loretta M. Lynch
Loretta M. Lynch

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Richard A. Bilas
Richard A. Bilas

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Henry M. Duque
Henry M. Duque

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Carl W. Wood
Carl W. Wood

Geoffrey F. Brown
Geoffrey F. Brown

Schedule 1.1

Procurement Related Liabilities

Amount	Description	Date Due
\$1.179	QFs ⁽¹⁾	Now
\$0.920	PX/ISO	Now
\$0.243	ESPs	Now
\$0.347	CDWR Imbalance Energy	Now
\$0.030	Other -	Now
\$2.720	Total Past Due Bills	
\$0.208	Bank Loan -- 364-Day Line	10/19/2001
\$0.415	Bank Loan -- Bilateral Lines	10/19/2001
\$1.090	Bank Loan -- 5-Year Line	10/19/2001
\$0.010	Extendable Commercial Notes (ECN)	10/22/2001
\$0.313	Floating Rate Notes	05/01/2002
\$1.047	Variable Rate Notes	11/03/2003
\$3.083	Total Non-defaulted Indebtedness	
\$0.552	Defaulted Commercial Paper	Now
\$6.355	Total	

⁽¹⁾ Net of offsets of \$44.5 million due SCE from QFs.

Exhibit A

Form of Stipulated Judgment

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
WESTERN DIVISION

SOUTHERN CALIFORNIA EDISON
COMPANY,

Plaintiff,

vs.

LORETTA M. LYNCH, HENRY M.
DUQUE, RICHARD A. BILAS,
CARL W. WOOD, and GEOFFREY
F. BROWN, in their official capacities
as Commissioners of the California
Public Utilities Commission,

Defendants.

CASE NO. 00-12056-RSWL(Mcx)

STIPULATED JUDGMENT

I. GENERAL PROVISIONS

A. Basis for resolution

1. Plaintiff, Southern California Edison Company ("SCE"), and Defendants, the Commissioners of the California Public Utilities Commission ("Commission", referred to collectively with the Defendants as "CPUC"), agree to the terms of this stipulated judgment to resolve this action. This stipulated judgment reflects a compromise of disputed issues in pending litigation, and is not to be taken as an admission of liability or material facts beyond the terms of the judgment. The purpose of this stipulated judgment is to stabilize the costs and enhance the reliability of producing and distributing electricity for the benefit of SCE's ratepayers and the State of California within the context of a Settlement Agreement ("Agreement"). The terms of the Agreement are set forth in Exhibit A hereto.

2. SCE and the CPUC share a common interest in implementing the provisions of this judgment, to enable SCE to recover its past costs as defined in the Agreement, to restore SCE to creditworthiness, to protect consumers from the potential impact of further volatility in electricity prices and unreliable service, and to avoid the risks and costs of further litigation. Implementation of the Agreement is intended to enable SCE to fulfill its historic obligation to provide reliable electric service at just and reasonable rates to its retail customers, and is therefore in the public interest.

B. Jurisdiction of the Court

1. SCE's Complaint alleges that defendants' past decisions are unlawful because they prevent SCE from recovering fully its costs, in particular, its costs of procuring electricity and its costs of interstate transmission. SCE's Complaint states causes of action based upon (a) preemption, including preemption under the filed rate doctrine, (b) facial takings, (c) due process, (d) as-applied takings, and (e) commerce clause.

2. The Court has previously determined that it has jurisdiction over this action pursuant to 28 U.S.C. §§ 1331, 1337 and 1343. Venue is proper in the Central District of California pursuant to 28 U.S.C. § 1391. Defendants agree not to take any appeal from the Court's determination that it has jurisdiction and to waive any defense they may have to the Court's jurisdiction based upon the Eleventh Amendment for purposes of this case only.

3. As a Party to the Agreement, the Commission (as distinct from the individual Defendants) joins in and agrees to be bound by all of the terms of this stipulated judgment. The CPUC agrees to waive any defense it may have to the Court's jurisdiction based upon the Eleventh Amendment, or other defense, for purposes of this case only.

C. Issues Previously Determined By The Court

1. The Court has denied defendants' motion to dismiss.

2. SCE alleges that federal law preempts California from preventing SCE from fully recovering in retail rates its wholesale procurement costs, which are subject to the exclusive jurisdiction of the Federal Energy Regulatory Commission ("FERC").

3. SCE has paid wholesale procurement costs established pursuant to tariffs filed by the Independent System Operator and the Power Exchange with FERC, and has been charged additional amounts pursuant to such tariffs that it has not yet paid. SCE has made the following assertions: The filed rate doctrine "holds that interstate power rates filed with FERC or fixed by FERC must be given binding effect by state utility commissions determining intrastate rates." Nantahala Power & Light Co. v. Thornburg, 476 U.S. 953, 962, 106 S. Ct. 2349, 90 L. Ed. 2d 943 (1986). Accordingly, "a State may not conclude in setting retail rates that the FERC-approved wholesale rates are unreasonable. A State must rather give effect to Congress' desire to give FERC plenary authority over interstate wholesale rates, and to ensure that the States do not interfere with this authority." Id. at 966. "When FERC sets a rate between a seller of power and a wholesaler-as-buyer, a State may not exercise its undoubted jurisdiction over retail sales to prevent the wholesaler-as-seller from recovering the costs of paying the FERC-approved rate." Id. at 970. As the Supreme Court stated in a subsequent case, States "may not bar regulated utilities from passing through to retail consumers FERC-mandated wholesale rates." Mississippi Power & Light Co. v. Mississippi ex rel. Moore, 487 U.S. 354, 372, 108 S. Ct. 2428, 101 L. Ed. 2d 322 (1988).

4. The Court has rejected defendants' claim that SCE is equitably estopped from invoking the filed rate doctrine. The Court has ruled that SCE may challenge defendants' implementation of state law, even though SCE lobbied for the passage of Assembly Bill 1890.

D. Issues Not Resolved

1. A number of issues are unresolved in this case and remain in dispute. This stipulated judgment reflects a compromise of those issues.

2. The Court has stated that the filed rate doctrine is subject to an exception under Pike County Light & Power Co. v. Pennsylvania Pub. Util. Comm'n, 465 A.2d 735 (Pa. Commw. Ct. 1983), if the state regulatory commission finds that the utility acted imprudently in failing to purchase power at wholesale from available, less costly sources. SCE contends that the Pike County exception does not apply to SCE, because the CPUC deemed all of SCE's purchases from the Power Exchange and Independent System Operator per se prudent. The CPUC has disputed SCE's contention.

3. The CPUC argues that SCE has recovered all of its wholesale procurement costs, because under AB 1890 it was required to recover those costs ahead of any so-called stranded costs. The CPUC argues, therefore, that there is no preemption claim in this case, and that therefore the Johnson Act does bar this case. On March 27, 2001, the CPUC issued Decision No. 01-03-082, which modified certain CPUC accounting rules. The CPUC contends that, as a result of this change, the CPUC has provided for the recovery of wholesale procurement costs. SCE disputes the CPUC's contention, and claims that the accounting change does not provide an adequate and independent state ground for avoidance of the application of the federal filed rate doctrine.

4. SCE contends that the CPUC's actions constitute a taking of property without just compensation and a violation of due process, insofar as the net effect of the State's regulatory program has been and continues to be to impair SCE's financial integrity and to prevent SCE from attracting capital and paying a return to investors. The CPUC has disputed SCE's contention, and claims that SCE has been provided with a reasonable opportunity to recover its stranded costs, and its inability to do so was caused by economic circumstances not within the control of the CPUC.

5. SCE contends that the CPUC's actions violate the Commerce Clause. The CPUC has disputed SCE's contention.

6. SCE and the CPUC recognize that SCE has presented substantial federal claims and that the ultimate judicial resolution of these issues is uncertain. SCE and the CPUC agree that the resolution of the case in accordance with this stipulated judgment is desirable to eliminate this uncertainty and to provide an outcome that is in the public interest.

E. Future Effect

1. The Agreement that is incorporated herein provides for SCE to recover certain costs in retail rates over time. An essential element of this stipulated judgment is to provide certainty that SCE will be able to recover such costs in accordance with the Agreement. SCE and the CPUC contemplate that third parties will rely on such certainty in extending credit to SCE. Accordingly, enforcement of this stipulated judgment and the Agreement are essential in order to restore SCE's creditworthiness, which is in the interests both of SCE and of the CPUC.

2. The parties and their respective successors and assigns agree to be bound by the terms of this stipulated judgment and agree not to contest its validity in any subsequent proceeding. Defendants recognize that market prices may fluctuate, that state or federal law may be modified, and that other circumstances may change, and nevertheless intend that this stipulated judgment be binding and enforceable in the future in accordance with its terms.

3. The Court enters this stipulated judgment and Agreement as its judgment, and retains jurisdiction to enforce the judgment in the future, as may be necessary.

Exhibit B

Form of Release

Release

This Release is being delivered as of October 2, 2001 by Southern California Edison Company ("SCE") to the California Public Utilities Commission ("CPUC"), pursuant to section 4.4 of the Settlement Agreement by and among SCE, the CPUC and the Commissioners of the CPUC, dated October 2, 2001 ("Agreement") and is subject to the provisions thereof. All capitalized terms not otherwise defined herein have the same meaning as is given to them in the Agreement.

A. Except as provided in the Agreement and in the Stipulated Judgment, SCE hereby does forever release and discharge the CPUC, the State of California, and their respective agencies, departments, successors, officials, agents, representatives, and employees, and each of them from any and all claims, debts, liabilities, demands, obligations, promises, acts, agreements, costs, expenses (including but not limited to attorneys' fees), damages, actions, causes of action and claims for relief of whatever kind or nature, under any theory, whether legal, equitable or other, under the law, either common, constitutional, statutory, regulatory, or other, of any jurisdiction, foreign or domestic ("Claims"), that arise from:

1. The facts pled, or that could have been pled, in Southern California Edison Company, Plaintiff, vs. Loretta M. Lynch et. al., presently pending in the United States District Court for the Central District of California, Case No. 00-12056-RSWL(Mcx), including without limitation claims and causes of action based upon the filed rate doctrine, takings, due process and commerce clause violations;

2. The CPUC's implementation, prior to the date of the Agreement, of Assembly Bill 1 of the 2001-02 First Extraordinary Session (Ch. 4, Stats. 2001-02 1st Ex. Sess.) and Assembly Bill 6 of the 2001-02 First Extraordinary Session (Ch. 2, Stats. 2001-02 1st Ex. Sess.), including CPUC Decision Nos. 01-03-081 and 01-04-005; and

3. CPUC Decision No. 01-03-082 (the TURN Accounting Decision).

B. With respect to the Claims that are the subject of release hereunder, SCE specifically waives all rights and benefits afforded by California Civil Code Section 1542 and does so understanding and acknowledging the significance of such specific waiver of such statutory protection, which provides as follows:

"A GENERAL RELEASE DOES NOT
EXTEND TO CLAIMS WHICH THE CREDITOR
DOES NOT KNOW OR SUSPECT TO EXIST IN HIS
FAVOR AT THE TIME OF EXECUTING THE RE-
LEASE, WHICH IF KNOWN BY HIM MUST HAVE
MATERIALLY AFFECTED HIS SETTLEMENT WITH
THE DEBTOR."

C. Except as may be specifically set forth in this Release, nothing in this Release, whether express or implied, is intended to confer any rights or remedies under or by reason of this release on any Persons other than the Parties and their respective permitted successors and assigns, nor is anything in this Release intended to relieve or discharge the obligation or liability of any third Persons to any Party, nor give any third Persons any right of subrogation or action against any Party.

IN WITNESS WHEREOF, SCE has executed and delivered this Release as of the day and year first above written.

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PROOF OF SERVICE BY FACSIMILE

I am employed in the County of Los Angeles, State of California. I am over the age of 18 and not a party to the within action. My business address is 355 South Grand Avenue, Thirty-Fifth Floor, Los Angeles, California 90071-1560.

On October 5, 2001, I served the foregoing document described as:

STIPULATED JUDGMENT

on the interested party in this action by facsimile as follows:

SEE ATTACHED SERVICE LIST

I arranged to have a true copy of the above document to be served by facsimile to the numbers reflected on the above.

I declare that I am employed in the office of a member of the bar of this court at whose direction the service was made.

Executed on October 5, 2001, at Los Angeles, California.


CORINNE UBENCE

SERVICE LIST

Southern California Edison Company v. Loretta M. Lynch, et al.

U.S.D.C. (Central District) – Case No. 00-12056-RSWL (Mcx)

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PUBLIC UTILITIES COMMISSION

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